

CITY OF SAN JOSE
2008-2012 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2008-2012 Adopted Capital Improvement Program (CIP) derives its funding from a variety of sources. The following table provides a listing of those sources grouped by major category, along with a comparison with the 2007-2011 Adopted CIP.

<u>Source</u>	<u>2007-2011 CIP</u> <u>(\$ millions)</u>	<u>2008-2012 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 878.7	\$ 1,185.0	\$ 306.3
Sale of Bonds	213.7	67.9	(145.8)
Other Agencies/Grants	156.5	201.4	44.9
Fees and Charges	253.6	263.8	10.2
General Fund	44.6	39.5	(5.1)
Transfers from Other Funds	1,135.5	1,103.9	(31.6)
Interest Income	42.6	57.4	14.8
Other Revenue	<u>162.8</u>	<u>202.1</u>	<u>39.3</u>
TOTAL	\$ 2,888.0	\$ 3,121.0	\$ 233.0

Beginning Fund Balances

The 2008-2012 Beginning Fund Balances of \$1,185.0 million are higher than the 2007-2011 CIP level by \$306.3 million (34.8%). The two largest capital programs in the 2008-2012 Adopted CIP account for 72% of the Beginning Fund Balances and over 90% of the increase from the prior CIP. The Airport Capital Program accounts for 53% (\$624.0 million) of the Beginning Fund Balances, an increase of \$272.3 million from the prior CIP based on the continuation of the Airport Master Plan build-out. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$227.1 million, account for 19% of the Beginning Fund Balances and reflect a higher Park Trust Fund balance and the continuation of Park Bond Fund projects into 2007-2008. As a significant number of capital projects are scheduled for completion over the next five years in these programs, a significant reduction should occur to the fund balance total.

Sale of Bonds

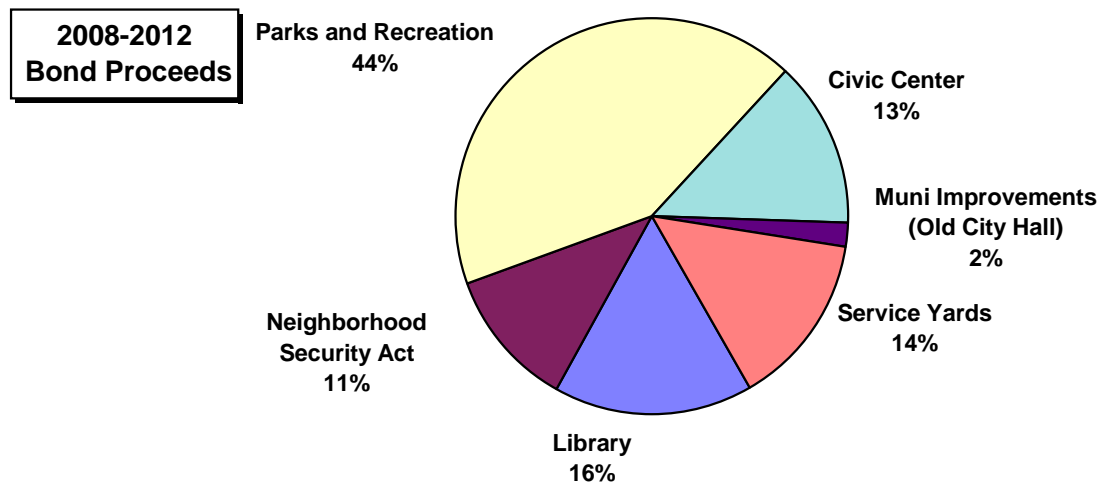
Total bond proceeds expected over the next five-year period of \$67.9 million reflect a \$145.8 million (68%) decrease compared to the estimates included in the last CIP. This decrease primarily reflects a drop in General Obligation Bond proceeds in the Public Safety Capital Program (\$71.8 million decrease) and Parks and Community Facilities Development Capital Program (\$21.0 million decrease) as associated bond projects are being completed; and the removal of bond proceeds associated with the Water Pollution Control Plant which had assumed \$50 million in bond proceeds as part of the 2007-2011 Adopted CIP. The 2008-2012 Adopted CIP includes the scheduled sale of the remaining General Obligation Bonds associated with parks and recreation projects (\$28.9 million), library projects (\$11.2 million), and public safety projects (\$7.7 million). This category also reflects the sale of bonds to fund Phase II of the Central Service Yard (\$9.6 million), to complete the Furniture, Fixtures, and Equipment purchases at City Hall (\$9.1 million), and to explore reuse options at the old City Hall (\$1.4 million).

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Sale of Bonds (Cont'd.)

It should be noted, however, that the majority of bond proceeds associated with the Airport Capital Program are not reflected in this category because they are technically considered a Transfer from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund. The graph below displays the anticipated bond sales by capital program.



Other Agencies/Grants

This category totaling \$201.4 million is comprised of federal (\$62.1 million) and State (\$65.5 million) grants, contributions from other agencies that use the Water Pollution Control Plant (\$67.3 million) and the Sanitary Sewer System (\$2.6 million), continuing Redevelopment Agency projects (\$2.7 million), the Valley Transportation Authority (\$530,000), and other agencies (\$620,000). On an overall basis, estimated revenues from these sources reflect an increase of \$44.9 million (28.7%) from the 2007-2011 Adopted CIP.

Almost all of the funding from the Federal Government is allocated to the Traffic Capital Program (\$30.8 million) and the Airport Capital Program (\$30.8 million) to support eligible projects in those areas. In the State grant category, it is anticipated that \$62.2 million will support traffic projects, primarily due to the revenue expected as a result of the recent passage of Propositions 1B and 42; and \$3.4 million will support parks projects. The contributions from the Valley Transportation Authority and other agencies will be used to support traffic projects.

Fees and Charges

The 2008-2012 Adopted CIP includes an estimate of \$263.8 million from the Fees and Charges category, an increase of \$10.2 million from the level included in the 2007-2011 Adopted CIP. On an

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Fees and Charges (Cont'd.)

overall basis, the revenue estimates assume moderate increases (4.0%) based on actual performance in the individual categories. The following table compares the components of the 2008-2012 Adopted Fees and Charges estimates with those included in the 2007-2011 Adopted CIP.

<u>Source</u>	<u>2007-2011 CIP</u> <u>(\$ millions)</u>	<u>2008-2012 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$ 119.0	\$ 127.0	\$ 8.0
Construction Excise Tax	69.9	72.2	2.3
Building and Structure Construction Tax	49.9	50.2	0.3
Sanitary Sewer Connection Fees	5.7	6.3	0.6
Water Utility Fees	4.5	4.6	0.1
Storm Drainage Fees	2.6	1.6	(1.0)
Residential Construction Tax	1.2	1.1	(0.1)
Major Water Facilities Fees	0.8	0.8	0.0
TOTAL	\$ 253.6	\$ 263.8	\$ 10.2

Following is a discussion of the revenue estimates for the three largest sources within the Fees and Charges category.

Construction and Conveyance Tax Revenues

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least twenty dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for approximately 2% of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds \$100. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 98% of the total Construction and Conveyance Taxes collected.

The five-year projection for Construction and Conveyance Tax revenues totals \$127 million, which is an \$8.0 million (6.7%) increase from the \$119 million estimated in the 2007-2011 Adopted CIP. The Construction and Conveyance (C&C) Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market. On an annual basis, collections are projected to fall to \$27 million in 2007-2008 (from the current year revenue estimate of \$34 million) and level off at \$25 million for each of the remaining

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Fees and Charges (Cont'd.)

Construction and Conveyance Tax Revenues (Cont'd.)

years of the CIP. As correctly anticipated in the prior CIP and the 2006-2007 Adopted Capital Budget, a softening of the local real estate market has begun and will continue to negatively impact C&C collections. C&C collections experienced declines in 12 out of the 13 months preceding June 2007, when compared to the same months in the prior year. This budget assumes that the housing market will continue to soften and C&C Tax receipts will stabilize at a lower and more sustainable level over the next five years.

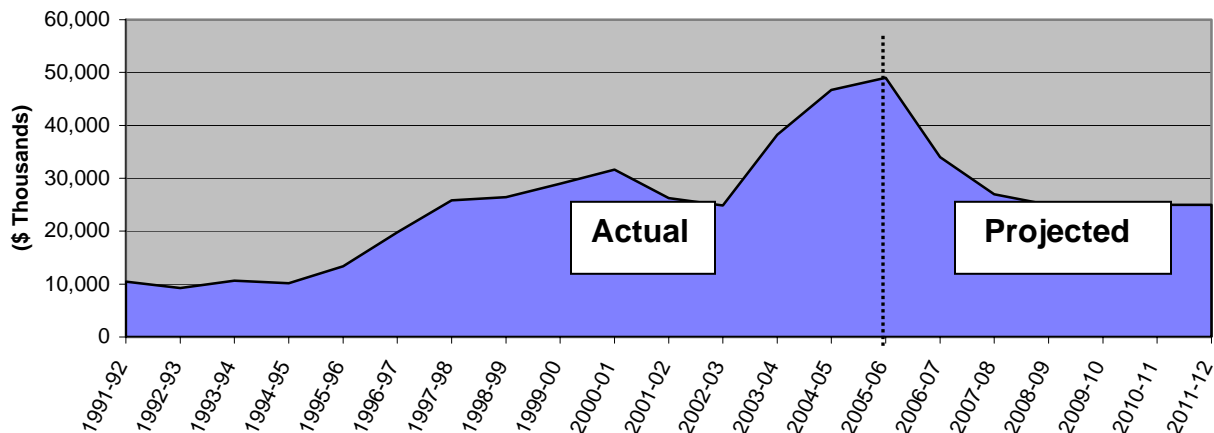
Based on the Council-approved distribution formula, C&C funds are allocated as follows in the 2008-2012 Adopted CIP.

Construction and Conveyance Tax Distribution

Program	Dist.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5-Year Total
Parks	64.00%	17,280,000	16,000,000	16,000,000	16,000,000	16,000,000	81,280,000
Park Yards	1.20%	324,000	300,000	300,000	300,000	300,000	1,524,000
Fire	8.40%	2,268,000	2,100,000	2,100,000	2,100,000	2,100,000	10,668,000
Library	14.22%	3,839,000	3,555,000	3,555,000	3,555,000	3,555,000	18,059,000
Service Yards	8.78%	2,371,000	2,195,000	2,195,000	2,195,000	2,195,000	11,151,000
Communications	3.40%	918,000	850,000	850,000	850,000	850,000	4,318,000
Total	100.00%	27,000,000	25,000,000	25,000,000	25,000,000	25,000,000	127,000,000

A graph of the actual and projected C&C Tax revenues is provided below. It illustrates the tremendous growth of the prior three years in this category, and the anticipated return this year and in subsequent years of this CIP to a more sustainable level of activity.

Construction and Conveyance Tax Revenues



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Fees and Charges (Cont'd.)

Construction Excise Tax

The Construction Excise Tax is levied upon construction, alteration, repair, or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. The tax may be used for any "usual current expense" of the City; however, the City Council has historically utilized the majority of these funds for traffic improvements. Based upon the construction projections provided by the Planning, Building and Code Enforcement Department, the revenue estimates included in the 2008-2012 Adopted CIP total \$72.2 million, with \$14.8 million budgeted in 2007-2008. The 2008-2012 Adopted CIP represents an increase of \$2.3 million (3.3%) from the total amount estimated in the 2007-2011 Adopted CIP. This slight increase reflects the assumption that residential and commercial construction activity is expected to remain stable, growing only moderately during the forecast period.

Building and Structure Construction Tax

The Building and Structure Construction Tax is levied on residential, commercial, and industrial development. The tax is collected based on building valuation. The use of funds is restricted to capital improvements on major arterial and collector streets, including bridges, culverts, and lighting as well as traffic control systems that increase traffic volume.

Based on construction activity forecasts supplied by the Planning, Building and Code Enforcement Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax totals \$50.2 million, with annual proceeds ranging from \$10.0 million to \$10.2 million. This is an increase of approximately \$0.3 million from the estimates included in the 2007-2011 Adopted CIP. While collections are expected to improve over the 5-year period, the projected activity levels are still well below the peak. For instance, the 2007-2008 revenue estimate of \$10.2 million is a drop of over 40% from the actual receipts in 2000-2001 of \$17.4 million.

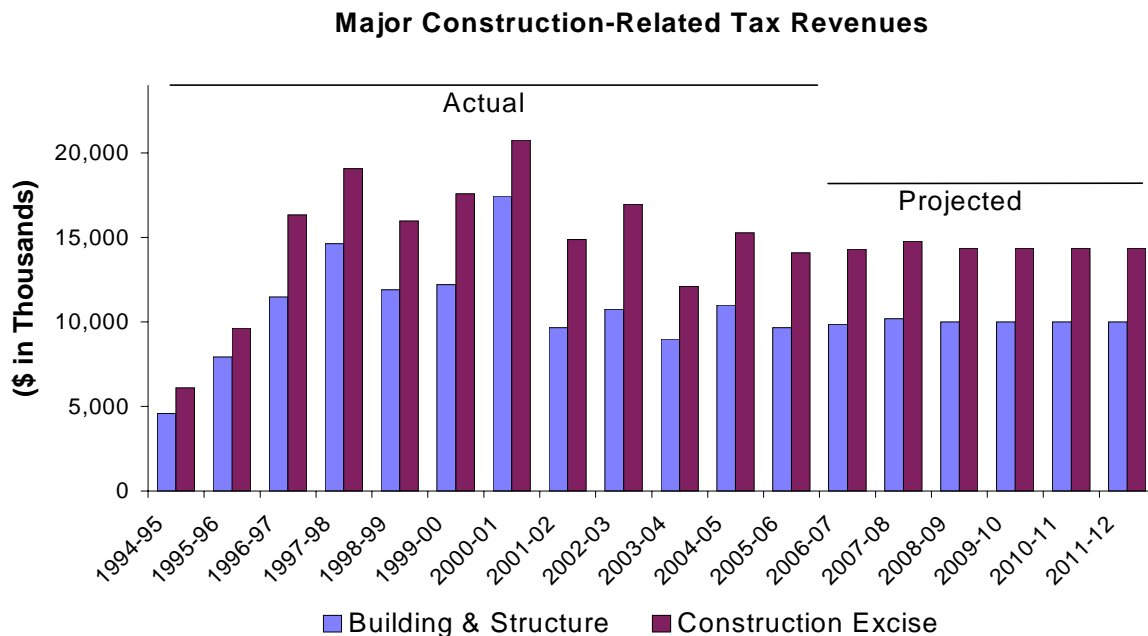
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Fees and Charges (Cont'd.)

Building and Structure Construction Tax (Cont'd.)

The following graph compares the actual and projected revenues for both the Building and Structure Construction and the Construction Excise Taxes, by year.



General Fund

General Fund contributions to capital projects included in the Adopted CIP total \$39.5 million. These funds are used to support the following capital programs:

- Traffic (\$7.2 million) – Includes one-time funding of \$5.0 million to address a portion of the backlog for traffic infrastructure maintenance needs, including street resurfacing, traffic sign replacement, and roadway striping and repainting; and funding carried over from 2006-2007 to complete capital projects;
- Public Safety (\$9.9 million) – Funds fire apparatus replacement;
- Service Yards (\$5.9 million) – Funds Service Yards Phase I debt service payments;
- Municipal Improvements (\$5.0 million) – Funds methane monitoring, HP Pavilion emergency repairs, fuel tank monitoring, improvements to address the facilities infrastructure maintenance backlog, miscellaneous repairs, and one-time funding of \$1.3 million to implement a secondary cooling system for the City Hall Network Operations Center;

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General Fund (Cont'd.)

- Parks and Community Facilities Development (\$6.8 million) – Reflects one-time funding for the remediation and clean-up of Watson Park (\$5.0 million) and funding carried over from 2006-2007 to complete capital projects; and,
- Communications (\$4.7 million) – Reflects the federal COPS 2003-2004 Interoperable Communications Grant that has been carried over from 2006-2007.

Transfers from Other Funds

Transfers totaling \$1.1 billion are the largest source of revenue in the 2008-2012 Adopted CIP primarily due to the inclusion of Transfers between funds associated with the Airport Program (\$815.6 million). Other significant transfers are reflected in the following programs: Water Pollution Control (\$118.4 million), Sanitary Sewer System (\$72.4 million), Parks and Community Facilities Development (\$45.0 million), Water Utility System (\$15.0 million), Library (\$14.4 million), Storm Sewer System (\$11.5 million), and Parking (\$9.1 million).

The transfer amount in the 2008-2012 Adopted CIP is below (\$31.6 million) the amount included in the 2007-2011 Adopted CIP due in large part to the timing of Airport projects (\$63.6 million decrease). As discussed earlier, bond proceeds are the source of funding for these transfers from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund to support the majority of the Airport Master Plan projects. The decrease in this category is partially offset by increases in most of the programs including the transfer from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$20.3 million increase) to fund the capital projects recommended over the next five years.

Interest Income

The 2008-2012 Adopted CIP includes \$57.4 million from interest income. This is an increase of \$14.8 million (35%) from the estimate included in the 2007-2011 Adopted CIP. The overall increase is primarily due to higher interest rates assumed in the 2008-2012 Adopted CIP compared to the 2007-2011 Adopted CIP and additional interest earnings from the Parks, Library, and Public Safety Bond Projects Funds based on a re-evaluation of the timing of projects.

Other Revenue

The Other Revenue category totals \$202.1 million, an increase of \$39.3 million (24%) from the 2007-2011 Adopted CIP. The majority of this funding (\$133.9 million) is associated with Airport revenues, such as Passenger Facility Charges (PFCs) and tenant improvement payments. In addition, the Service Yards Capital Program (\$14.0 million) and Public Safety Capital Program (\$3.6 million) include proceeds from the sale of surplus land.

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Other Revenue (Cont'd.)

The Other Revenue category also includes developer contributions of \$38.8 million, which is significantly higher than the 2007-2011 Adopted CIP totals of \$20.8 million. The Traffic Capital Program includes developer contributions of \$28.8 million, of which \$20.2 million is anticipated from the development of North San José development over the five-year term of this CIP. An additional \$5.9 million is associated with providing improvements at Bailey Avenue and Route 101 in the North Coyote Valley. The Developer Assisted Projects Capital Program includes \$7.5 million to support underground utility activities and the Parks and Community Facilities Development Capital Program includes Developer Contributions of \$2.5 million associated with the Calpine Open Space Agreement.